INFORMATION BULLETIN 2010-3

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Adjustment to the improvement for computer-aided special effects and animation applicable to productions qualified for the Tax Credit for Film Production Services

On June 12, 2009, to stimulate job creation and further encourage foreign producers to choose Québec as a filming location, major changes were made to the refundable tax credit for film production services.[1]

Accordingly, the tax credit, which previously was calculated at 25% of the qualified labour expenditures, is now calculated at 25% of all-spend production costs incurred in Québec, which correspond to the total of the qualified labour cost and the cost of qualified properties.

Besides the addition of the "cost of qualified properties" component in the base of the tax credit of a qualified corporation, the "qualified labour cost" component is a broader notion than the notion of qualified labour expenditures that, previously, represented the tax credit base.

According to this broader notion, the qualified labour cost of a qualified corporation, for a taxation year, means, in general, the wages or salaries, including the associated payroll taxes, that were incurred by the corporation, in the year, regarding an employee as well as the cost of any service contract, incurred by the corporation with a supplier of services, in relation to a qualified production, provided:

— they relate to services provided in Québec, in the course of the year, in relation to the production stages running from screenplay to postproduction;

— they are directly attributable to the completion of the qualified production; and

— they are reasonable in the circumstances.

However, a wage or salary, including the associated payroll taxes, or a cost of a service contract incurred directly or indirectly regarding a producer, an author, a scriptwriter, a director, a production designer, a director of photography, a music director, a composer, a conductor, an editor, a visual effects supervisor, an actor (speaking role) or an interpreter will be qualified only if such person is an individual who resides in Québec at the time when the services are provided in the course of the completion of the qualified production.[2]

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1 Ministère des Finances du Québec, *Information Bulletin 2009-3*, June 12, 2009, p. 1.

2 *Ibid.*, p. 3.

Moreover, the improvement for computer-aided special effects and animation regarding a qualified production gave rise to the same broadening of the base as the basic all-spend tax credit, and applies to the all-spend production costs that relate to qualified activities relating to the completion of computer-aided special effects and animation. However, because of the broadening of the base of the improvement, its rate, in the case of a qualified production, was reset from 20% to 5%, thus providing an improved tax credit on such expenditures at a rate of 30%.

Where the proportion of all-spend production costs that relate to computer-aided special effects and animation is very high in a film production, the tax credit relating to the improvement, at the rate of 5%, to which all such all-spend production costs give rise may, in some cases, be less than what would have been obtained according to the former rules, i.e. an improvement at the rate of 20% of qualified labour expenditures that relate to the completion of computer-aided special effects and animation.

Accordingly, to maintain the competitive position of Québec's tax assistance in relation to qualified productions that include computer-aided special effects and animation, regardless of the relative importance of the computer-aided special effects and animation in the qualified production, the improvement in this regard will no longer apply on all-spend production costs but rather on the qualified labour cost (broad notion), provided such cost relates to qualified activities relating to the completion of computer-aided special effects and animation for use in the qualified production. However, given that the base of the improvement will henceforth consist solely of the "qualified labour cost" component, its rate will be raised from 5% to 20%.[3]

The changes relating to the improvement for computer-aided special effects and animation announced in *Information Bulletin 2009-3* of June 12, 2009 will be withdrawn and replaced by the changes announced in this information bulletin. Consequently, the latter changes will apply regarding a qualified production for which the main photography or recording work in Québec was completed after June 12, 2009.

For information concerning the matters dealt with in this information bulletin, contact the Secteur du droit fiscal et de la fiscalité at 418 691-2236.

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Paper copies are also available, on request, from the Direction des communications, at 418 528-9323.

3 Like the changes announced June 12, 2009, the changes announced in this information bulletin do not apply to qualified low-budget productions. Accordingly, for those productions, the improvement for computer-aided special effects and animation continues to apply to the qualified labour expenditures that relate to computer-aided special effects and animation and not to the qualified labour cost (broad notion).